

Nokia Corporation - Financial and Strategic Analysis Review

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Company Snapshot

Key Information

Nokia Corporation, Key Information	
Web Address	www.nokia.com
Financial year-end	December
Number of Employees	124,292
Helsinki Stock Exchange	NOK1V
Source: Annual Report, Company Website, Primary and Secondary Research Global Markets Direct	

Company Overview

Nokia Corporation (Nokia) is a provider of products and services for wireless communications. The company is engaged in designing, developing and manufacturing a wide range of mobile devices. Nokia also provides equipment, solutions and services for communications networks. It offers Internet services in its mobile devices, which enable the users to experience music, navigation, video, television, imaging, and games. The company operates its business through three major segments, namely, Devices and Services, NAVTEQ segment, and Nokia Siemens Networks. The devices and services segment comprises mobile phones, multimedia, and enterprise solutions divisions.

Key Ratios

Nokia Corporation, Key Ratios	
P/E	9.110
EV/EBITDA	6.500
Return on Equity (%)	28.100
Debt/Equity	0.300
Operating Profit Margin (%)	9.800
Dividend Yield	0.040
Note: Above ratios are based on share price as of 03-Sep-2009 Source: Annual Report, Company Website, Primary and Secondary Research Global Markets Direct	

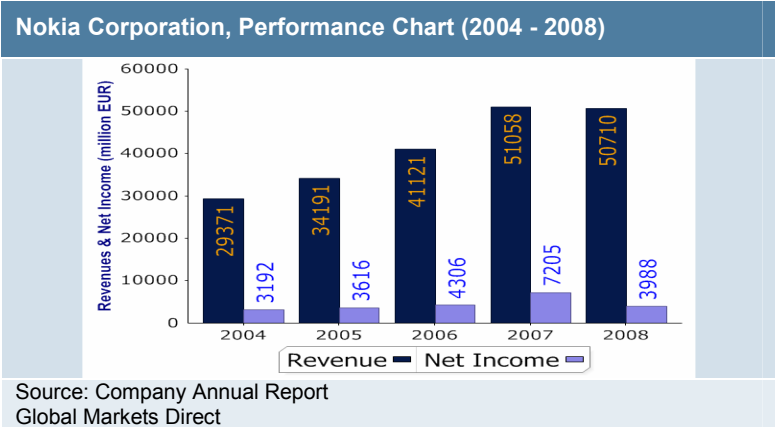
SWOT Analysis

Nokia Corporation, SWOT Analysis	
Strengths	Weaknesses
Strong Market Position	Litigations
Focused Research and Development	Growing Interest Expense
Efficient Use of Resources	Limited Liquidity Position
Opportunities	Threats
Strategic Acquisitions	Intense Competition
Mobile Data Growth in Europe	Global Economic Slowdown
Source: Annual Report, Company Website, Primary and Secondary Research Global Markets Direct	

Share Data

Nokia Corporation, Share Data	
Price (EUR) as on 03-Sep-2009	9.600
EPS (EUR)	1.055
Book Value per Share (EUR)	3.800
Diluted Weighted Average Shares (in million)	3,780.360
Source: Annual Report, Company Website, Primary and Secondary Research Global Markets Direct	

Performance Chart



Financial Performance

The company reported revenues of (Euro) EUR 50,710.00 million during the fiscal year ended December 2008, a decrease of 0.68% from 2007. The operating profit of the company was EUR 4,966.00 million during the fiscal year 2008, a decrease of 37.81% from 2007. The net profit of the company was EUR 3,988.00 million during the fiscal year 2008, a decrease of 44.65% from 2007.

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Nokia Corporation - Key Facts

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Corporate Address	Nokia House, Keilalahdentie 2-4, Espoo, 02150, Finland	Ticker Symbol, Exchange	NOK1V [Helsinki Stock Exchange]
Telephone	+358 7180 08000	No. of Employees	124,292
Fax	+358 7180 38226	Fiscal Year End	December
URL	www.nokia.com	Revenue (in USD Million)	74,573.53
Industry	Technology	Revenue (in EUR Million)	50,710
Locations	Australia, Austria, Bahrain, Bangladesh, Belgium, Bulgaria, Canada, Croatia, Cyprus, Czech Republic, Democratic People's Republic of Korea, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Indonesia, Iran (Islamic Republic of), Iraq, Ireland, Israel, Italy, Japan, Jordan, Kuwait, Lebanon, Lithuania, Luxembourg, Netherlands, Norway, Oman, Pakistan, Poland, Portugal, Romania, Singapore, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Uganda, United Arab Emirates, United Kingdom, United States, Yemen		

Source: Annual Report, Company Website, Primary and Secondary Research
Global Markets Direct

Nokia Corporation - SWOT Analysis

SWOT Analysis - Overview

Nokia Corporation (Nokia) is a world leader in mobile devices and related products and services. The company's strong market position and its focus on R&D initiatives are its key strengths, even as the eroding market share in Smartphone segment is an area of concern. Going forward, the company may be affected by increased competition. However, its strategic acquisitions and positive market outlook for its mobile devices can offer growth opportunities.

Nokia Corporation - Strengths

Strength - Strong Market Position

Nokia holds a strong position in the mobile phone market. The company is a leading provider of Mobile phones with 39% of the market share based on an estimated global market volume for mobile devices of 1.21 billion units in 2008 and 38% of the market share in 2007. During 2008, the company shipped 468 million mobile devices, this is an increase of 7% from 2007. Nokia offers mobile devices with GSM/EDGE, 3G/WCDMA and CDMA global cellular standards, and also increasingly features non-cellular technologies such as Bluetooth, WLAN and GPS. In addition, the company also provides megapixel cameras, music players, computers, gaming consoles and navigation devices with a single converged device. During 2008, the company sold 61 million converged devices. The strong market position of the company could promote the further growth of the company.

Strength - Focused Research and Development

Nokia places the utmost importance on research and development. It has a well-equipped research center that creates assets and competencies in technology areas. The majority of Nokia's essential patents are generated by the Nokia Research Center. Various products, services and solutions of Nokia feature technologies from its own research and development, from its technology platforms and from external vendors. The company has a global network of relationships with universities and other industry research and development parties, which expands the scope of its long-term technology development. The company established a new Nokia Research Center site in Cambridge, UK, together with collaboration with the University of Cambridge, the establishment of the Nokia Innovation Center in Tampere, Finland, together with collaboration with the Tampere University of Technology, and collaborations with the Helsinki University of Technology, Finland, and Tsinghua University, China. The company has R&D centers in eleven countries and employs more than 15,000 people in research and development, representing approximately 12% of Nokia's total workforce. The strong R&D capabilities of the company could help the company in producing new and innovative products.

Strength - Efficient Use of Resources

The company's return on equity (ROE) was 28.1% for the fiscal year 2008. This was above the Communications Equipment sector average* of 6.7%. A higher than sector average* ROE may indicate that the company is efficiently using the shareholders' money and that it is generating high returns for its shareholders compared to other companies in the sector.

Strength - Expanding Market Share in Sector

The company's compounded annual growth rate (CAGR) for revenue was 14.6% during 2004-2008. This was above the Communications Equipment sector average* of 12%. A higher than sector average* revenue CAGR indicates that the company has outperformed the average sector growth and gained the market share over the last four years. The company may have achieved this growth due to better competitive positioning or superior products and services offering compared to other companies in the sector.

Strength - Strong Operating Margin

The company's operating margin was 9.8% for the fiscal year 2008. This was above the Communications Equipment sector average* of 4.37%. A higher than sector average* operating margin may indicate efficient cost management or a strong

pricing strategy by the company. However, the company's operating margin has declined 580 basis points (bps) over 2007 which may indicate that the company's cost management and pricing strategy is weakening.

Nokia Corporation - Weaknesses

Weakness - Litigations

Nokia faces several litigations in different courts on diverse counts including patent infringement. During 2008, the company entered into a 15 year license agreement with Qualcomm to cover various current and future standards and other technologies such as GSM, EDGE, CDMA, WCDMA, HSDPA, OFDM, WiMax, LTE and other technologies. But Nokia has agreed not to use any of its patents directly against Qualcomm, which resulted in a one-time lump-sum cash payment of EUR 1.7 billion (USD 2.3 billion) to Qualcomm by Nokia. In 2007, Qualcomm filed three patent infringement lawsuits against Nokia in China. The lawsuits involved three Chinese patents that Qualcomm apparently contend applies to the manufacture and sale of certain specified GSM handsets. In addition, Qualcomm filed a patent infringement action against Nokia in the Eastern District of Texas involving three patents. In December 2007, IPCom filed an action against Nokia in Mannheim, Germany claiming infringement of eight patents. The company also has legal disputes with InterDigital Technology Corporation and Interdigital Communications Corporation alleging infringement of two WCDMA patents, of which, the final verdict is expected in December 2009. Legal disputes such as these will result in additional expenses and paying damages, which can negatively impact its profitability. Repeated lawsuits against the company could ruin the reputation in the market.

Weakness - Growing Interest Expense

The interest expense of the company in 2008 was EUR 185 million as compared to EUR 43 million in 2007. The increase in the interest expense was principally due to increase in the long-term interest-bearing liabilities of the company and interest-bearing liabilities related to financing of the NAVTEQ acquisition. The long-term liabilities were EUR 861 million in 2008 as compared to EUR 203 million in 2007. The high interest expense of the company could negatively affect the profitability of the company.

Weakness - Limited Liquidity Position

The company's current ratio was 1.2 at the end of the fiscal year 2008. This was below the Communications Equipment sector average* of 2.32. A lower than sector average* current ratio indicates that the company is in a weaker financial position than other companies in the sector.

Weakness - Declining Market Share of Smartphone

The company has limited shares in the global Smartphone market, which is dominated by Blackberry from RIM, and iPhone from Apple, among others. At the end of first half of 2009, Nokia had 45% share, which was 47.4% a year ago. It lost its market share to Apple and RIM. RIM's market share in the Smartphone market has increased from 17.3% in the first half of 2008 to 18.7% in the first half of 2009, and Apple's share increased from 2.8% in the first half of 2008 to 13.3% in the first half of 2009. Although Nokia has its products in this segment, it could not withstand the competition from these players.

Nokia Corporation - Opportunities

Opportunity - Strategic Acquisitions

During the past few years, Nokia has made several strategic acquisitions that enable it to compete effectively in consumer Internet services and enterprise solutions and software. In late 2008, it acquired Symbian Limited, a developer of open platform for mobile devices. The acquisition will promote the development of web-enabled applications for the consumers, which may strengthen the company's competitive position. Earlier in July 2008, Nokia acquired the NAVTEQ Corporation, as part of its strategy to enhance its presence in the consumer Internet services. NAVTEQ brought the technology and competency required to offer a wide range of digital map information and related location-based content and services for mobile navigation devices, Internet-based mapping applications, automotive navigation systems, and a host of government and business solutions. The acquisition may ensure the continuous development of its geographical and context services through Nokia Maps, besides facilitating Nokia to position itself as a provider of location-based services including targeted advertising and pedestrian navigation. The acquisition further strengthens Nokia's position in the global mobile devices market. Other major acquisitions include Twango, which provides a comprehensive media sharing solution for organizing and sharing photos, videos and other personal media, in July 2007, Enpocket, a global leader in mobile advertising with technology and services for planning, creating, executing, measuring and optimizing mobile advertising campaigns, in October 2007, and Avvenu, a company providing secure remote access and private sharing technology that allows users to access and view PC files remotely, in December 2007. These acquisitions made by the company could accelerate its growth and improve its position in the market.

Opportunity - Mobile Data Growth in Europe

The company is expected to gain from the growing mobile data market in Europe. Though slow revenue growth is being witnessed in the European mobile enterprise market, it is predicted that the mobile data growth would improve in the coming years. Analysts expect European mobile enterprise revenues to total about USD 22.4 billion by 2013. They expect the number of business subscriptions across Austria, the Czech Republic, Germany, Netherlands, Poland, Romania, and the UK in the mobile data market is projected to reach 37.5 million by 2013, from 33.9 million in 2008. It is also expected that data services would grow at a much higher pace, with mobile broadband computing subscriptions growing at a (compounded annual growth rate) CAGR of 8% during 2008-2013 and M2M subscriptions fuelling a growth of about 7% CAGR during the same period.

Opportunity - Demand for Smartphones

The company may take advantage of the growing demand for the Smartphones, which is emerging as a major growth opportunity for mobile device manufacturers. Analysts project the global demand for smartphones to grow at a (compounded annual growth rate) CAGR of about 30% during 2008-2011. Considerable demand is expected from the emerging markets, particularly in the Asia Pacific region, and from North America. Also, it is forecasted that the smartphone segment would witness growth even in these tough economic times owing to the fact that consumers are becoming more aware of the advantages of these devices, especially with regards to email and e-transactions, among others.

Opportunity - Growth Plans for Emerging Markets

Nokia, as part of its growth strategy for emerging markets, plans to make mobile devices cheaper and affordable. In this line, the company carried out a pilot program across two South Indian states – Andhra Pradesh and Karnataka. The company carried out this pilot in association with a microfinance organization, to which, it sold the mobile devices, which in turn, sold them on easy installments (INR 100 for 25 months). With this pilot program proving successful, the company plans to extend this to 12 Indian states, as part of its plans to seize market opportunities in India, which adds an estimated 10 million users every month, especially in rural India. The company expects the Indian mobile users to cross 500 million users by 2010, even as the penetration level is still low at 13%. It also may adopt similar growth plans in other emerging markets.

Nokia Corporation - Threats

Threat - Intense Competition

The mobile devices and related services industry is characterized with severe competition. The principal competitors in mobile devices have been other mobile device manufacturers including LG, Motorola, Samsung and Sony Ericsson. In addition, the company also faces competition from mobile network operators that offer mobile phones under their own brand. It also faces competition from smaller mobile device manufacturers, such as ZTE, in certain markets. Due to the convergence of mobile device technology with the Internet, Nokia also faces competition from companies in related industries, such as Internet based products and services, consumer electronics manufacturers, network operators and business device and solution providers. These competitors include, Apple, Garmin, Google, Palm, Research in Motion, Sony and TomTom. The major competitors of Nokia in network infrastructure segment include AlcatelLucent, Cisco, Ericsson, Huawei, Motorola, NEC, Nortel and ZTE. In services area, competition is from telecommunications players such as Accenture, HP and IBM. Additionally, there are many other companies such as Fujitsu, Juniper, Samsung and Tellabs, which have a narrower scope in terms of served regions and business areas. The fierce competition in the industry could adversely affect the business and operational performance of the company.

Threat - Global Economic Slowdown

Though the company has its operations across the world, it derives a majority of its revenue from America and Europe. The economic slowdown has shown its effect on all the geographic regions, prominently Europe and the US. Analysts forecast that the GDP growth in the US and the Eurozone would further slowdown in 2009. Reports suggest that the United States real GDP growth would fall to negative 3.15% in 2009 from positive 1.1% in 2008. Also, the economic growth in the Eurozone decreased to 1.4% in 2008 from 2.9% in 2007 and is forecasted to drop further to as low as 0.2% in 2009. Such a weak economic outlook across the company's two key markets could pressurize the company's revenue and thereby adversely affect its overall business.

Threat - Labor Strikes

The company has manufacturing facilities in strategic locations, across the world. Its production and subsequently, its sales could be impacted, if employees go on strike for any reason. In the past, the company's employees have adopted various methods to show their disapproval of any plans or demanding any benefits. In August 2009, Nokia employees of Chennai, India facility went on strike demanding pay increases. This facility exports about half of its production to over 59 countries. Although, employees returned to work, disruptions such as this could have a negative impact on its performance.

NOTE:

* Sector average represents top companies within the specified sector

The above strategic analysis is based on in-house research and reflects the publishers opinion only

Appendix

The data and analysis within this report is driven by Global Markets & Companies.

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Methodology

Global Markets Direct company reports are based on a core set of research techniques which ensure the best possible level of quality and accuracy of data. The key sources used include:

- Company Websites
- Company Annual Reports
- SEC Filings
- Press Releases
- Proprietary Databases

Currency Codes	
Currency Code	Currency
USD	U.S. Dollars
Global Markets Direct	

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